

CITY OF MADRID
Independent Auditors' Reports
Basic Financial Statements and Supplemental Information
Schedule of Findings

June 30, 2007

CITY OF MADRID

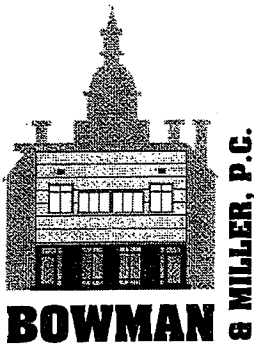
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CITY OF MADRID

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Amy Yoakum	Mayor	Jan 2008
Ken Williams	Mayor Pro Tem	Jan 2008
Joyce Carlson	Council Member	Jan 2008
Steve Burich	Council Member	Jan 2010
Donald Lincoln	Council Member	Jan 2010
Val Chapman	Council Member	Jan 2010
Todd Kilzer	City Administrator / Clerk	Jan 2008
John Jordan	City Attorney	Jan 2008
Donald Fatka	City Treasurer	Jan 2008



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Elizabeth A. Miller, CPA • beth@syscompia.com
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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Madrid's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2007 on our consideration of the City of Madrid's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2006 and 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the year ended June 30, 2004 (which is not presented herein) was audited by other auditors who expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Madrid provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities, net of debt proceeds, decreased 0.3%, or approximately \$5,000, from fiscal 2006 to 2007. The increases in property tax of \$115,000 and use of money and property \$10,000 was offset by decreases in the following: other city taxes \$21,000, licenses and permits \$4,000, intergovernmental \$77,000, charges for services \$6,000, special assessments \$5,000 and other miscellaneous receipts \$16,000.
- Disbursements decreased 7.7%, or approximately \$134,500 in fiscal 2007 from fiscal 2006. The increases in public safety of \$23,000, culture and recreational of \$43,000 and debt service of \$22,000 were offset by decreases in the following: public works \$32,000, community and economic development \$40,000, and capital projects \$152,000.
- The City's total cash basis net assets decreased by 7%, or approximately \$71,000 from June 30, 2006, to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$115,700 and the assets of the business type activities increased by approximately \$44,700.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds. These funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago from \$625,400 to \$509,800. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 169,381	175,502
Operating grants, contributions and restricted interest	425,411	502,833
General receipts:		
Property tax	588,149	472,709
Other city tax	180,565	202,013
Special assessments	13,172	18,275
Use of money and property	34,033	23,586
Loan proceeds	21,000	302,670
Other general receipts	<u>52,002</u>	<u>72,529</u>
Total receipts	<u>1,483,713</u>	<u>1,770,117</u>
Disbursements:		
Public safety	328,991	305,736
Public works	373,658	405,484
Health and social services	3,802	3,600
Culture and recreation	240,583	197,725
Community and economic development	22,210	62,403
General government	147,211	145,762
Debt service	289,398	267,243
Capital projects	<u>217,010</u>	<u>369,431</u>
Total disbursements	<u>1,622,863</u>	<u>1,757,384</u>
Increase (decrease) in cash basis net assets before transfers	(139,150)	12,733
Net transfers from business type activities	<u>23,480</u>	<u>46,350</u>
Increase (decrease) in cash basis net assets	(115,670)	59,083
Cash basis net assets beginning of year	<u>625,446</u>	<u>566,363</u>
Cash basis net assets end of year	\$ <u>509,776</u>	<u>625,446</u>

The City's total receipts for governmental activities decreased by 16% or \$286,400. The significant decrease in receipts were debt proceeds of approximately \$280,000 and CDBG proceeds of \$152,000. Property tax receipts increased \$115,000 and all other receipts increased approximately \$32,000. The total cost of all programs and services decreased by approximately \$134,500. Capital project disbursements decreased by approximately \$152,000 and public works and economic development decreased \$32,000 and \$40,000 respectfully. Public safety disbursements increased approximately \$23,000. Culture and recreation and debt service disbursements increased approximately \$43,000 and \$22,000 respectively.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 352,835	355,471
Sewer	214,071	213,212
General receipts:		
Unrestricted interest on investments	8,534	4,882
Other general receipts	14,252	10,438
Total receipts	<u>589,692</u>	<u>584,003</u>
Disbursements:		
Water	327,638	309,187
Sewer	193,824	194,955
Total disbursements	<u>521,462</u>	<u>504,142</u>
Increase in cash basis net assets before transfers	68,230	79,861
Net transfers to governmental activities	<u>(23,480)</u>	<u>(46,350)</u>
Increase in cash basis net assets	44,750	33,511
Cash basis net assets beginning of year	<u>394,931</u>	<u>361,420</u>
Cash basis net assets end of year	\$ <u>439,681</u>	<u>394,931</u>

Total business type activities receipts for the fiscal year were \$589,692 compared to \$584,003 in the prior year. The increase was due to the reduction of transfers to governmental activities. The disbursements and transfers for the year decreased by 1%, or approximately \$5,700 due to decrease in debt service of \$4,400 and decrease in transfers to other funds of \$23,000 and an increase in operating disbursements of \$21,700.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$509,776, a decrease of \$115,670 from last year's total of \$625,446. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$131,630 from the prior year to \$15,864. Transfers to other funds was the primary reason for the decrease.
- The Road Use Tax Fund cash balance decreased by \$4,273. This decrease was due to transfers to other funds.
- The Employee Benefits Fund cash balance increased by \$18,336. The increase in disbursements for employee benefits was offset by an increase in transfers from the General Fund.
- The Emergency Fund cash balance increased by \$18 due to a decrease in transfers to other funds.

- The Debt Service Fund cash balance increased by \$65,877. The increase in property tax receipts accounted for the majority of the increase.
- The Capital Projects Fund cash balance decreased by \$62,125. The excess of receipts over disbursements on the sanitary sewer project was the primary reason for the increase.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$40,588 to \$230,471, due in part to a lesser amount transferred to governmental funds.
- The Sewer Fund cash balance increased \$4,162 to \$209,210, due primarily to lower amount of debt service disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 21, 2007 and resulted in an increase in disbursements relating to capital projects and an increase in disbursements relating to business type activities.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$2,003,781 in bonds and other long-term debt, compared to \$2,282,296 last year as shown below.

Outstanding Debt at Year-End			
		June 30,	
		2007	2006
General obligation bonds	\$	1,610,000	1,815,000
Revenue notes		310,000	425,000
Other long-term debt		83,781	42,296
Total	\$	<u>2,003,781</u>	<u>2,282,296</u>

General obligation debt and revenue bonds and notes decreased due to current year debt payments.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,610,000 is below its constitutional debt limit of \$3,933,122.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget are \$3,350,669, an increase of 31.7% over the final 2007 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Kilzer, City Administrator, at 304 S. Water Street, Madrid, Iowa 50156.

CITY OF MADRID

Statement of Activities and Net Assets-Cash Basis

As of and for the year ended June 30, 2007

		Program Receipts	
		Charges for	Operating Grants, Contributions and Restricted Interest
	Disbursements	Service	
Functions/Programs:			
Governmental activities:			
Public safety	\$ 328,991	120	24,365
Public works	373,658	129,101	206,961
Health and social services	3,802	4,511	-
Culture and recreation	240,583	35,649	56,700
Community and economic development	22,210	-	-
General government	147,211	-	-
Debt service	289,398	-	-
Capital projects	217,010	-	137,385
Total governmental activities	<u>1,622,863</u>	<u>169,381</u>	<u>425,411</u>
Business type activities:			
Water	327,638	352,835	-
Sewer	193,824	214,071	-
Total business type activities	<u>521,462</u>	<u>566,906</u>	<u>-</u>
Total	\$ <u>2,144,325</u>	<u>736,287</u>	<u>425,411</u>

General receipts:

Property tax levied for:

General purposes

Debt Service

Other city tax

Licenses and permits

Use of money and property

Special assessments

Debt proceeds

Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Debt service

Parks

Library

Fire equipment

Capital projects

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(304,506)	-	(304,506)
(37,596)	-	(37,596)
709	-	709
(148,234)	-	(148,234)
(22,210)	-	(22,210)
(147,211)	-	(147,211)
(289,398)	-	(289,398)
(79,625)	-	(79,625)
(1,028,071)	-	(1,028,071)
-	25,197	25,197
-	20,247	20,247
-	45,444	45,444
(1,028,071)	45,444	(982,627)
435,639	-	435,639
152,510	-	152,510
180,565	-	180,565
12,364	-	12,364
34,033	8,534	42,567
13,172	-	13,172
21,000	0	21,000
39,638	14,252	53,890
23,480	(23,480)	-
912,401	(694)	911,707
(115,670)	44,750	(70,920)
625,446	394,931	1,020,377
\$ 509,776	439,681	949,457
\$ 106,705	392,153	498,858
10,710	-	10,710
34,635	-	34,635
27,732	-	27,732
138,806	-	138,806
191,188	47,528	238,716
\$ 509,776	439,681	949,457

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2007

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	\$ 338,214	-	86,968	10,457
Other city tax	170,772	-	3,405	410
Licenses and permits	12,364	-	-	-
Use of money and property	32,764	-	-	-
Intergovernmental	86,498	201,528	-	-
Charges for service	169,381	-	-	-
Special assessments	-	-	-	-
Miscellaneous	30,754	-	-	-
Total receipts	840,747	201,528	90,373	10,867
Disbursements:				
Operating:				
Public safety	259,777	-	69,214	-
Public works	156,683	180,801	36,174	-
Health and social services	3,802	-	-	-
Culture and recreation	215,126	-	13,431	-
Community and economic development	22,210	-	-	-
General government	128,993	-	18,218	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	786,591	180,801	137,037	-
Excess (deficiency) of receipts over (under) disbursements	54,156	20,727	(46,664)	10,867
Other financing sources (uses):				
Loan proceeds	21,000	-	-	-
Operating transfers in	10,849	-	65,000	-
Operating transfers out	(217,635)	(25,000)	-	(10,849)
Total other financing sources (uses)	(185,786)	(25,000)	65,000	(10,849)
Net change in cash balances	(131,630)	(4,273)	18,336	18
Cash balances beginning of year	147,494	170,746	(10,291)	788
Cash balances end of year	\$ 15,864	166,473	8,045	806
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	15,864	-	-	-
Special revenue funds	-	166,473	8,045	806
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 15,864	166,473	8,045	806

See notes to financial statements.

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
152,510	-	-	588,149
5,978	-	-	180,565
-	-	-	12,364
-	-	1,269	34,033
-	137,385	-	425,411
-	-	-	169,381
13,172	-	-	13,172
-	-	8,884	39,638
171,660	137,385	10,153	1,462,713
-	-	-	328,991
-	-	-	373,658
-	-	-	3,802
-	-	12,026	240,583
-	-	-	22,210
-	-	-	147,211
289,398	-	-	289,398
-	217,010	-	217,010
289,398	217,010	12,026	1,622,863
(117,738)	(79,625)	(1,873)	(160,150)
-	-	-	21,000
183,615	17,500	-	276,964
-	-	-	(253,484)
183,615	17,500	-	44,480
65,877	(62,125)	(1,873)	(115,670)
40,828	200,931	74,950	625,446
106,705	138,806	73,077	509,776
106,705	-	-	106,705
-	-	-	15,864
-	-	-	175,324
-	138,806	-	138,806
-	-	73,077	73,077
106,705	138,806	73,077	509,776

CITY OF MADRID

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances Proprietary Funds As of and for the year ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 352,835	214,071	566,906
Miscellaneous	14,252	-	14,252
Total operating receipts	367,087	214,071	581,158
Operating disbursements:			
Business type activities	264,476	126,846	391,322
Excess of operating receipts over operating disbursements	102,611	87,225	189,836
Non-operating receipts (disbursements):			
Interest on investments	6,139	2,395	8,534
Debt service	(63,162)	(66,978)	(130,140)
Total non-operating receipts (disbursements)	(57,023)	(64,583)	(121,606)
Excess of receipts over disbursements	45,588	22,642	68,230
Operating transfers out	(5,000)	(18,480)	(23,480)
Net change in cash balances	40,588	4,162	44,750
Cash balances beginning of year	189,883	205,048	394,931
Cash balances end of year	\$ 230,471	209,210	439,681
Cash Basis Fund Balances			
Reserved for debt service	\$ 158,920	233,233	392,153
Unreserved	71,551	(24,023)	47,528
Total cash basis fund balances	\$ 230,471	209,210	439,681

CITY OF MADRID
Notes to Financial Statements
June 30, 2007

Note 1 – Summary of Significant Accounting Policies

The City of Madrid is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Madrid has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Madrid has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. A City official is a member of the Boone County Landfill Commission.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Emergency Fund is used to account for the emergency taxes levied.

The Employee Benefits Fund is used to account for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The City of Madrid maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety and health and social services.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investment at June 30, 2007 is as follows:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$2,000</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2007

Note 3 – Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$32,744, \$30,754 and \$30,135 respectively, equal to the required contributions for each year.

Note 4 – Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, water and sewer revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds and Notes				Total	
	Principal	Interest	Water		Sewer		Principal	Interest
			Principal	Interest	Principal	Interest		
2008	\$ 220,000	70,723	60,000	6,060	65,000	4,274	345,000	81,057
2009	225,000	61,265	60,000	3,720	65,000	1,430	350,000	66,415
2010	240,000	51,238	60,000	1,260	-	-	300,000	52,498
2011	280,000	40,275	-	-	-	-	280,000	40,275
2012	295,000	27,600	-	-	-	-	295,000	27,600
2013	110,000	14,105	-	-	-	-	110,000	14,105
2014	80,000	9,825	-	-	-	-	80,000	9,825
2015	80,000	6,658	-	-	-	-	80,000	6,658
2016	80,000	2,832	-	-	-	-	80,000	2,832
Total	<u>\$1,610,000</u>	<u>284,521</u>	<u>180,000</u>	<u>11,040</u>	<u>130,000</u>	<u>5,704</u>	<u>1,920,000</u>	<u>301,265</u>

The water and sewer revenue bonds note were issued for construction of water and wastewater projects of the City. The resolution providing for the issuance of the revenue bonds include the following provisions: (a) the bonds will only be redeemed from the future earnings of the enterprise activity funds and the bond holders hold a lien on the future earnings of the funds. (b) sufficient monthly transfers shall be made to the separate water and sewer bond sinking accounts for the purpose of making the bond principal and interest payments when due.

CITY OF MADRID

Notes to Financial Statements (Continued)

June 30, 2007

Note 5 – Lease Purchase Obligation

The City has entered into a capital lease with John Deere Leasing Company for the purchase of a backhoe and loader. Annual payments totaling \$15,013 are required for the lease payment. The following is the information relating to the lease:

Leased From	Interest Rate	Date		Principal Balance	Item Leased
		Issued	Due	June 30, 2007	
John Deere Leasing Co.	5.75%	March 15, 2007	March 15, 2012	<u>\$64,938</u>	Backhoe and Loader

The following is a schedule by years of future minimum lease payments under this lease:

Year Ending June 30	
2008	\$ 15,013
2009	15,013
2010	15,013
2011	15,013
2012	<u>15,013</u>
Total minimum lease payments	75,065
Less: Amount representing interest	<u>10,127</u>
Present value of net minimum payments	<u>\$ 64,938</u>

Note 6 – Risk Management

The City of Madrid is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 12,718</u>

The liability has been computed based on rates of pay in effect at June 30, 2007.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2007

Note 8 – Deficit Fund Balance

The Sewer Revenue Fund had a deficit unreserved balance at June 30, 2007 of \$24,023. The deficit balance resulted from excess disbursements over receipts during fiscal years ended June 30, 2006 and 2005.

Note 9 – Litigation

The City is named as a party in one lawsuit, which is pending in the Iowa District Court for Boone County. The City is vigorously defending its' position regarding this case.

Note 10 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt service	General fund	\$140,135
	Special Revenue:	
	Road Use Tax	25,000
	Enterprise:	
	Sewer Revenue	<u>18,480</u>
		<u>183,615</u>
General fund	Special Revenue:	
	Emergency	<u>10,849</u>
Special Revenue: Employee Benefits	General	
		<u>65,000</u>
Capital Projects	General	12,500
	Enterprise:	
	Water Revenue	<u>5,000</u>
		<u>17,500</u>
Total		<u>\$276,964</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF MADRID

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget and Actual (Cash Basis)

All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 588,149	-
Other city tax	180,565	-
Licenses and permits	12,364	-
Use of money and property	34,033	8,534
Intergovernmental	425,411	-
Charges for service	169,381	566,906
Special assessments	13,172	-
Miscellaneous	39,638	14,252
Total receipts	<u>1,462,713</u>	<u>589,692</u>
Disbursements:		
Public safety	328,991	-
Public works	373,658	-
Health and social services	3,802	-
Culture and recreation	240,583	-
Community and economic development	22,210	-
General government	147,211	-
Debt service	289,398	-
Capital projects	217,010	-
Business type activities	-	521,462
Total disbursements	<u>1,622,863</u>	<u>521,462</u>
Excess (deficiency) of receipts over (under) disbursements	(160,150)	68,230
Other financing sources (uses), net	44,480	(23,480)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(115,670)	44,750
Balances beginning of year	625,446	394,931
Balances end of year	<u>\$ 509,776</u>	<u>439,681</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
588,149	592,096	592,096	(3,947)
180,565	173,641	194,571	(14,006)
12,364	14,625	9,925	2,439
42,567	27,300	39,300	3,267
425,411	310,330	281,585	143,826
736,287	759,200	779,860	(43,573)
13,172	28,720	19,000	(5,828)
53,890	120,574	95,995	(42,105)
2,052,405	2,026,486	2,012,332	40,073
328,991	326,201	328,082	(909)
373,658	386,603	396,676	23,018
3,802	3,800	3,600	(202)
240,583	195,272	248,748	8,165
22,210	25,100	34,360	12,150
147,211	138,451	164,030	16,819
289,398	338,338	364,369	74,971
217,010	17,500	380,970	163,960
521,462	590,348	622,512	101,050
2,144,325	2,021,613	2,543,347	399,022
(91,920)	4,873	(531,015)	439,095
21,000	18,884	368,849	(347,849)
(70,920)	23,757	(162,166)	91,246
1,020,377	909,152	909,152	111,225
949,457	932,909	746,986	202,471

CITY OF MADRID

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, the Permanent Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$521,734. The budget amendment is reflected in the final budget amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in public safety and health and social services functions.

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2007

	Permanent				Total
	Edgewood Park	Jensen Park	Boyd Library	Fire Equipment	
Receipts:					
Use of money and property	\$ -	-	1,269	-	1,269
Donations	-	1,757	-	7,127	8,884
Total receipts	-	1,757	1,269	7,127	10,153
Disbursements:					
Operating:					
Culture and recreation	-	6,112	5,914	-	12,026
Total disbursements	-	6,112	5,914	-	12,026
Net change in cash balances	-	(4,355)	(4,645)	7,127	(1,873)
Cash balances at beginning of year	10,000	5,065	39,280	20,605	74,950
Cash balances at end of year	\$ 10,000	710	34,635	27,732	73,077
Cash Basis Fund Balances					
Unreserved:					
Permanent funds	\$ 10,000	710	34,635	27,732	73,077
Total cash basis fund balances	\$ 10,000	710	34,635	27,732	73,077

CITY OF MADRID
Schedule of Indebtedness
Year Ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Library, storm sewer, bridge and street	Jul 1, 1999	4.45-5.30 %	\$ 755,000
Street improvement	May 1, 2000	4.90-5.55	210,000
Street improvement	Nov 1, 2002	2.25-4.50	725,000
Street improvement	Mar 15, 2004	1.45-4.15	395,000
Water/sewer	Jan 1, 2006	3.6-4.40	310,000
Total			
Revenue bonds and notes:			
Water	Oct 1, 2002	2.90-4.20 %	\$ 340,000
Sewer	Oct 1, 1998	3.95-4.40	550,000
Total			
Lease:			
John Deere backhoe	Mar 15, 2007	5.75 %	\$ 64,938
Bank loan:			
Police car	Feb 22, 2007	5.95 %	\$ 21,000

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	540,000	-	80,000	460,000	27,728	-
	100,000	-	25,000	75,000	5,437	-
	510,000	-	65,000	445,000	21,175	-
	355,000	-	25,000	330,000	12,530	-
	310,000	-	10,000	300,000	17,528	-
\$	1,815,000	-	205,000	1,610,000	84,398	-
\$	235,000	-	55,000	180,000	8,162	-
	190,000	-	60,000	130,000	6,978	-
\$	425,000	-	115,000	310,000	15,140	-
\$	42,296	36,205	13,563	64,938	1,912	-
\$	-	21,000	2,157	18,843	400	-

CITY OF MADRID
Bond and Note Maturities
June 30, 2007

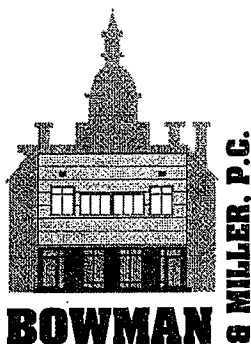
General Obligation Bonds						
Year Ending June 30,	Library, storm sewer, bridge and street		Street improvement		Street improvement	
	Issued Jul 1, 1999		Issued May 1, 2000		Issued Nov 1, 2002	
	Interest Rates	Amount	Interest Rate	Amount	Interest Rate	Amount
2008	5.00 %	\$ 85,000	5.40 %	\$ 25,000	3.80 %	\$ 70,000
2009	5.10	90,000	5.45	25,000	4.00	70,000
2010	5.20	90,000	5.55	25,000	4.20	80,000
2011	5.25	95,000	-	-	4.40	110,000
2012	2.30	100,000	-	-	4.50	115,000
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
Total		\$ <u>460,000</u>		\$ <u>75,000</u>		\$ <u>445,000</u>

Revenue Bonds and Notes								
Year Ending June 30,	Water			Sewer		Total		
	Issued Oct 1, 2002			Issued Oct 1, 1998				
	Interest Rates	Amount		Interest Rates	Amount			
2008	3.80 %	\$	60,000	4.35 %	\$	65,000	\$	125,000
2009	4.00		60,000	4.40		65,000		125,000
2010	4.20		60,000	-		-		60,000
Total		\$	180,000		\$	130,000	\$	310,000

Street improvement				Water/Sewer improvement			
Issued Mar 15, 2004				Issued Jan 1, 2006			
Interest Rate		Amount		Interest Rate		Amount	
						Total	
2.60	%	\$	25,000	3.65	%	\$	220,000
2.85			25,000	3.75			225,000
3.10			25,000	3.80			240,000
3.35			20,000	3.85			280,000
3.55			20,000	3.95			295,000
3.70			50,000	4.05			110,000
3.85			55,000	4.20			80,000
4.00			55,000	4.30			80,000
4.15			55,000	4.40			80,000
		\$	<u>330,000</u>			\$	<u>300,000</u>
						\$	<u>1,610,000</u>

CITY OF MADRID
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Four Years

		<u>Years ended June 30,</u>			
		2007	2006	2005	2004
Receipts:					
Property tax	\$	588,149	472,709	452,153	442,715
Other city tax		180,565	202,013	183,946	188,857
Intergovernmental		425,411	502,833	248,810	231,545
Licenses and permits		12,364	16,629	11,201	1,912
Use of money and property		34,033	23,586	12,134	16,595
Charges for services		169,381	175,502	173,812	128,726
Special assessments		13,172	18,275	18,499	19,400
Miscellaneous		39,638	55,900	72,558	67,744
Total	\$	1,462,713	1,467,447	1,173,113	1,097,494
Disbursements:					
Operating:					
Public safety	\$	328,991	305,736	301,401	292,206
Public works		373,658	405,484	379,831	355,629
Health and social services		3,802	3,600	3,606	3,530
Culture and recreation		240,583	197,725	185,677	167,677
Community and economic development		22,210	62,403	15,570	8,902
General government		147,211	145,762	154,092	121,865
Debt service		289,398	267,243	264,385	224,577
Capital projects		217,010	369,431	465,860	227,732
Total	\$	1,622,863	1,757,384	1,770,422	1,402,118



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Governmental Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 15, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Madrid's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Madrid's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the City of Madrid's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Madrid's financial statements that is more than inconsequential will not be prevented or detected by the City of Madrid's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of financial statements will not be prevented or detected by the City of Madrid's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Madrid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Madrid's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Madrid's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Madrid and other parties to whom the City of Madrid may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Madrid during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 15, 2007

CITY OF MADRID
Schedule of Findings
Year Ended June 30, 2007

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF MADRID
Schedule of Findings (Continued)
Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-07 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties the City should utilize administrative personnel to provide additional internal control through review of financial transactions and report.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the public safety and health and social services functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Improvements to fund balance reports are being made to help the City monitor balances in a more timely and accurate manner.

Conclusion – Response accepted.

III-B-07 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

III-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF MADRID
Schedule of Findings (Continued)
Year Ended June 30, 2007

III-D-07 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-07 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

III-G-07 Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has received and continues to hold shares of common stock as a donation for the new library. The holding of common stock is contrary to the City's investment policy.

Recommendation – The City should modify its investment policy to allow for the holding of common stock when it is received as a gift.

Response – We will be disposing of the stock.

Conclusion – Response accepted.

III-H-07 Financial Condition – The City had a deficit balance in the following account and / or fund:
Sewer Revenue Account.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this accounts to a sound financial position.

Response – We will seek solutions to these deficits.

Conclusion – Response accepted.

III-I-07 Revenue Bonds – The City was in compliance with all applicable revenue bond provisions.

CITY OF MADRID

Staff

This audit was performed by:

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